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UNCLAS SECTION 01 OF 02 MUMBAI 000282

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E.O. 12958: N/A
TAGS: EFIN EINV ECON IN
SUBJECT: INTERNATIONAL FINANCIAL SERVICES FORUM HOLDS PANEL WITH INDIAN REGULATORS

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¶1. (U) Summary. On June 17, the International Financial Services Forum (IFSF), Mumbai - a collaborative effort of Consulate Mumbai and the British High Commission - hosted a panel-discussion entitled, "Working with Indian Regulators." The panel, comprised of three of India's most distinguished career regulators, discussed the structure and state of India's financial regulatory system, and offered a number of recommendations for international businesses to effectively navigate India's complicated regulatory structures. All three speakers acknowledged that while the Indian regulatory system is excessively convoluted and in need of serious reorganization, the re-election of the UPA signaled the coming of accelerated reforms. They recommended that given the regulatory system's complexity and often overlapping and uncommunicative regulatory bodies, international firms would be wise to carefully study existing laws and to partner with reliable Indian financial consultants. Most important, the regulators counseled, firms should keep contact and have regular consultations with relevant regulatory agencies to ensure that regulation meets the needs of both the customer and the industry. End Summary.

`Regulation Not a Science'
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¶2. (U) The International Financial Services Forum, a partnership of Consulate Mumbai and the British Deputy High Commission, was established in 2008 to serve as venue for international financial service firms to discuss aspects of regulation and markets in India. In recent months, the group has hosted several discussions on financial sector issues, including a reflection on corporate governance and an interview with Hector Sans, the Chief Executive Officer of the U.K.'s Financial Services Authority. On June 17, the Forum hosted its fourth event since its inception, entitled a "Meeting with Indian Regulators." Presenting at the discussion were three of India's most distinguished regulators, M. Damadoran, the former Chairman of the Securities and Exchange Board of India (SEBI), Kishori Udeshi, Chairperson of the Banking Codes and Standards Board of India and former Deputy Governor of the Reserve Bank of India (RBI), and U. K. Sinha, Chairman and Managing Director of UTI Asset Management who was formerly a joint secretary at the Ministry of Finance. Over the course of the two hour event, the three speakers spoke candidly about the state of the Indian financial regulatory system in the wake of the global financial crisis, and offered concrete proposals for international businesses to effectively traverse the often byzantine Indian financial regulations.

¶3. (U) Former SEBI Chairman M. Damadoran began the discussion with a judicious assessment of the Indian regulatory system and regulatory culture. He joked that regulators believe that they rarely - if ever - make a mistake, while those in industry view regulators as business hostile. The truth of the matter is, according to Damadoran, both of these views are false. He

explained that regulators do not know everything and they are certainly aware of their mistakes. They are in no way an enemy of business and should not be thought of as an impediment to economic progress. In fact, the role of the regulator is to protect both investors and businesses. Regulation is a cyclical process; people object to it when times are good, but demand it to be more stringent when times are bad. Damadoran maintained that "industry and regulators need to remember that they have shared objectives, even when it may seem that they are at odds." "Regulation," he reflected, "is always a work in progress." It is never complete. It must adapt and evolve to meet technological advances, the emergence of new financial products, and changing political and social conditions. Each country should have regulations tailored to its unique size, financial sector maturity, and individual societal and political conditions.

¶4. (U) Damadoran lamented the fact that regulators receive a seemingly endless string of complaints from leaders of industry who have encountered problems in the language of regulation. These complaints, Damadoran critically remarked, arrive at the desks of the regulators far too late in the regulatory process. Before the RBI, SEBI, IRDA or any Indian regulatory body release new regulations, the proposals are released to the public for consideration. This is a probationary period in which industry has the ability, indeed the obligation, to study incoming regulation, and to advocate modifications before the rules come into effect. Failure to take advantage of this opportunity for input ultimately hurts the industry and the regulator alike.

¶5. (U) Following Damadoran was Kishori Udeshi of the Reserve Bank of India. Since her expertise is the banking sector, she restricted her comments to banking regulation. Like in other sectors, reforms in the banking sector will be gradual, Udeshi warned. However, with the UPA retaking control of the Lok Sabha with an increased majority, banking reforms should proceed less obstructed. Udeshi emphasized that the RBI must have a social agenda when formulating its policies. "The whole nation, most

importantly the poor, must be able to access the benefits of the banking system." Accordingly, the RBI will reward those banks that are responsive to the needs of the underprivileged. Banks will be given incentives to offer lower minimum deposit requirements, less complicated procedures, and easy to understand forms for the less educated. These types of policies are not only good for the underprivileged, but will help drive the entire national economy forward, she stated.

¶6. (U) Commenting on international business practices in India, Udeshi echoed the comments of Damadoran when she strongly advised banks and financial service providers to take advantage of the consultation period before the release of new regulations. "Don't complain after the process is over, make your voice heard in the preliminary discussion," Udeshi advised. She added that "the RBI would like to minimize disruptions in the banking sector; these consultation sessions are perhaps the most effective mechanism for maintaining stability."

¶7. (U) Wrapping up the presenters was U.K. Sinha, Chairman and Managing Director of UTI Asset Management, and former Joint Secretary in the Ministry of Finance. Sinha acknowledged that the Indian regulatory scheme, as it stands today, is so complex that foreign firms should be wary of investing before they have conducted extensive preparatory research. "Firms should always employ a knowledgeable Indian financial consultant to explain the ins-and-outs of the system and the hierarchy of the laws," he advised. Questions of minimum and maximum capital investment requirements, state versus national regulations, and regulatory body jurisdiction can all be clarified through the help of a consultant. In addition, firms should regularly refer to reputable financial publications like the Economic Survey of India which is released with every federal budget. In particular, Sinha said, all financial firms should read the Foreign Exchange Management Act. He stressed that "it is the most important piece of legislation for foreign investment firms to consider."

¶8. (SBU) Comment: Although the three distinguished former regulators talked at length about the need for regulation, they

did not offer any insights into the regulatory decision-making process. The regulators stressed that they welcomed public comments on draft regulation, but did not disclose regulatory deliberation on the submitted suggestions and comments, or to what extent these are incorporated into the final regulation. The regulator's comments and guidance during the course of the discussion was aimed more towards an audience of new entrants -- and not established companies in India. In their defense, the audience also did not pose any challenging questions or demand explanations for non business-friendly regulations, and were content with merely making observations. Their apparent apathy and complacence epitomizes the divide between regulators and the people that are regulated. Hopefully, forums like this will help bridge that divide. End Comment.
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